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MEMORANDUM FOR THE RECORD

13 July 1951

SUBJECT: Conversation with Air Force on Profit Margins

1. Today I conferred at the Pentagon with Mr. Max Golden, of the Office of General Counsel, Air Force, and Mr. Ed Ryan, from the Procurement Policy Office, Air Force, concerning increased profit margins being asked by some contractors. The case of [REDACTED] Company was discussed in particular, since [REDACTED] is demanding a profit of 11.5% of cost, with a 25% upward revision ceiling, on a million and a half dollar fixed price production contract currently being negotiated with CIA. The policy of the Agency has been to limit profit percentages on this type of procurement to a maximum of 10% of cost.

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2. Mr. Ryan had information on some six recent Air Force contracts with [REDACTED]. The profit margins in these contracts varied from 6% to 10% of cost, but none exceeded 10%. He did not know the upward revision limits in but one case, where it was approximately 9%. However, it was stated that the Air Force frequently imposes no ceiling on upward revision, on the theory that where there is no such ceiling a lower initial price can be negotiated with the contractor. It was agreed by the Air Force representatives that the 25% ceiling asked by [REDACTED] is quite adequate to protect the company against contingencies on a production contract even though deliveries extend for approximately two years.

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3. Mr. Ryan has talked recently with a Mr. Mann of the Navy Department (probably BuOrd), who is conversant with [REDACTED] Company. Mr. Mann stated that [REDACTED] has been a good, small, low cost manufacturer and hence might merit some special consideration on the matter of profit margin.

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4. Mr. Golden stated that the Air Force is currently engaged in an attempt to reduce the profit margins on future contracts with several companies which have been receiving profits of 11% to 12% of cost and higher in fixed price contracts with the Air Force. The Air Force is expecting to receive the cooperation of the Army and Navy in this. It is understood that [REDACTED] is one of the principal companies involved. The Air Force desires to cooperate in holding the line on profit margins and rolling back excessive margins currently being granted.

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5. The Air Force representatives did not have complete information on current procurement, since this is handled largely at

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Wright Field. However, they believe that the 10% profit margin has not been exceeded in contracts with [REDACTED] Mr. Ryan will call Wright Field to obtain any further information available and inform me of the results.

OGC/RGH:nw

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